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GLEN LAKE SILVER MINES LIMITED

ANNUAL REPORT 1968

GLEN LAKE SILVER MINES LIMITED

Suite 503 - 365 Bay Street

Toronto 1, Canada

Filed

~~CONFIDENTIAL~~

To the Shareholders:

You have undoubtedly been gratified by the consistent rise in the price of silver, a trend which should prove most beneficial to your company's growth and profitability.

Higher prices for this metal have already allowed your company to change from a selective type of operation, seeking out higher grade ore, to a more conservative and economical method of mining and milling ore "as it comes".

The enclosed financial information on your company's activities during the six months ended January 31, 1968, reflect, to some extent this change in mining and milling pattern.

As you will note, the quantity of ore milled during the period increased sharply as compared to the corresponding period last year. This was due to the placing in operation of the La Rose mill and its utilization for the treatment of special low grade rock broken and stockpiled some years ago in the Kerr Lake area. Higher prices for silver made it profitable to treat this low grade material.

It may be worth pointing out that out of a total of 45,130 tons of ore treated in the two mills operated by your company, 20,345 tons came from the Glen Lake and Hiho mines, yielding 455,226.5 ounces of silver. Total output for the period was 534,022 ounces.

As this report deals with operations up to January 31, 1968, the impact of higher prices of silver on your company's financial results has not been fully reflected. At the same time, operating costs rose owing to increased volume of mill material, the mining and processing of lower grade ore, and higher labor costs.

Your directors are optimistic about the future of silver and the dividend recently paid to you is an expression of their confidence in your company's future earnings and continuing growth.

Respectfully submitted,

On behalf of the board,

FRANK CADESKY,
President.

28th March, 1968.

GLEN LAKE SILVER MINES LIMITED

The following is a condensed report of the results of operations of Glen Lake Silver Mines Limited and its wholly-owned subsidiary, Hiho Silver Mines Limited for the six months ended January 31, 1968 and comparable information for the same period in 1967 (prepared from the books of account without audit).

	Six Months Ended January 31, 1968	January 31, 1967
Tons milled	45,130	18,521
Recovery of silver (fine ounces)	534,022	617,650
Revenue from metal sales	\$1,118,674	\$ 862,931
Less — smelter, royalty and marketing costs	118,791	117,032
	\$ 999,883	\$ 745,899
Operating costs	\$ 653,375	\$ 424,546
Administrative expenses	76,274	70,950
	\$ 729,649	\$ 495,496
Operating profit before depreciation and amortization	\$ 270,234	\$ 250,403
Provision for depreciation of equipment and amortization of preproduction expenses	\$ 148,554	\$ 82,250
Operating profit	\$ 121,680	\$ 168,153
Outside exploration expenditures	30,389	53,394
	\$ 91,291	\$ 114,759
Add — profit on sale of equipment	127,588	—
Net profit (see note)	\$ 218,879	\$ 114,759

NOTE — Counsel for the Company has advised that in their opinion Hiho Silver Mines Limited should be entitled to the three-year tax exempt period to commence August 1, 1964, for which application has been made. The Department of National Revenue has indicated it is prepared to grant tax exemption to July 31, 1965. Hiho proposes to dispute any assessment by the Department, but if unsuccessful, income taxes for the six months ended January 31, 1968 could amount to approximately \$76,000. Based on Hiho having a three-year tax exempt period commencing August 1, 1964, there is sufficient pre-production expenses available to offset profits and accordingly no provision for income taxes has been made.

Glen Lake Silver Mines Limited and Hiho Silver Mines Limited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Six Months Ended January 31, 1968

(with comparative figures for the six months ended January 31, 1967)

(prepared from the books of account without audit)

	Six Months Ended January 31, 1968	January 31, 1967
Source of Funds		
Profit for the year	\$ 218,879	\$ 114,759
Add — non-working capital items charged to earnings:		
Allowance for depreciation and amortization of preproduction expenses	148,554	82,250
	\$ 367,433	\$ 197,009
Deduct — non-working capital items credited to earnings:		
Profit on sale of equipment	127,588	—
Funds provided from operations	\$ 239,845	\$ 197,009
Decrease in prepaid expenses	4,885	5,584
Decrease in mine stores inventory	—	1,157
Decrease in affiliated company's indebtedness	10,418	—
	\$ 255,148	\$ 203,750
Application of Funds		
Additions to buildings and equipment	\$ 49,081	\$ 28,882
Shaft sinking and related costs	—	14,131
Option on mining claims in Northwest Territories	—	3,000
Advances to affiliated company	—	19,778
Special refundable tax	—	17,376
Dividends paid or payable	231,750	154,500
Investment in shares of a mining company	33,750	—
Payment on option to acquire mining claims	10,000	—
Increase in mine stores inventory	11,793	—
Miscellaneous	3,214	—
	\$ 339,588	\$ 237,667
Decrease in working capital	\$ 84,440	\$ 33,917
Working capital at beginning of period	309,549	404,848
Working capital at end of period	\$ 225,109	\$ 370,931
Represented by:		
Current assets	\$ 866,808	\$ 643,917
Current liabilities	641,699	272,986
	\$ 225,109	\$ 370,931

TO THE SHAREHOLDERS

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GLEN LAKE SILVER MINES LIMITED

SILVER TOWN MINES LIMITED

October 19th, 1968

The Boards of Directors of Glen Lake Silver Mines Limited and Silver Town Mines Limited (the "Merging Corporations") have jointly prepared this letter to the shareholders of both companies to comment upon a proposed merger of the companies. This is a matter of great importance to shareholders and you are urged to carefully review the enclosed material.

Special General Meetings of shareholders of the Merging Corporations have been called for November 25th, 1968. In the case of Glen Lake the meeting of shareholders will also be an annual general meeting. Accordingly there will be mailed to the shareholders of Silver Town a copy of the Glen Lake Annual Report and a separate Information Circular pertaining to business to be dealt with at the Glen Lake meeting other than consideration of the Merger itself which is the subject matter of a joint Information Circular forwarded to the stockholders of both companies.

The enclosed Information Circular respecting the Merger contains audited financial statements of Silver Town at July 31st, 1968. Similar statements relating to Glen Lake will be found in its Annual Report. In order to reflect the financial position of Glen Lake after giving effect to the Merger, a pro-forma financial statement is also reproduced. The Merger Information Circular contains reports on the property holdings of the Merging Corporations at Cobalt as well as appraisals of the three mills at Cobalt operated by the Merging Corporations.

The report of the Glen Lake Directors in the Glen Lake Annual Report comments upon the proposed Merger and sets forth various advantages envisaged by Management flowing from this step. It would be redundant to repeat these matters and your attention is specifically directed to the observations made in this regard which are endorsed by the Directors of Silver Town.

Having concluded that a Merger of the companies was desirable, discussion ensued to determine the format of the Merger and also to arrive at a basis which would be equitable to the shareholders of both companies. The advice of our Counsel and Accountants indicated that the Merger should take the form of a purchase by Glen Lake of all of the Silver Town assets. As to the balancing of equities between the shareholders, this was a matter which received lengthy and careful consideration by the Boards of Directors of the Merging Corporations since a number of matters had to be taken into consideration including the property holdings of the companies, the financial position of the companies and the market price for shares of each of the respective Merging Corporations.

Bearing all of the foregoing in mind it was felt that the most equitable arrangement would be for the shareholdings of Glen Lake shareholders to remain unaltered while Glen Lake would issue additional treasury shares so that Silver Town shareholders would receive 1 share of Glen Lake for every 3 shares of Silver Town presently held. Assuming both companies' shareholders approve the Merger Agreement, the Silver Town stockholders will also be asked to authorize the surrender of its

charter in order to enable the distribution of Glen Lake shares to the Silver Town Shareholders. As indicated in the Information Circular pertaining to the Merger, these shares accruing to the Silver Town shareholders will qualify for the 2½¢ quarterly dividend payable December 16th, 1968.

As the Glen Lake shareholders have previously been advised, a Ruling has issued from the United States Internal Revenue Service that shares of Glen Lake are exempt from the provisions of the Interest Equalization Tax Act of the United States of America. It is believed that the proposed Merger will not alter this arrangement, but no Ruling has yet been made in this regard by the Internal Revenue Authorities.

The Boards of Directors of both Glen Lake and Silver Town unanimously recommend this Merger to the shareholders for their approval. The meetings are of the utmost importance to both companies and their shareholders, and if you are unable to be present you are urged to complete the enclosed Instrument of Proxy and return same to Management so as to ensure your representation at the meeting.

Respectfully submitted

GLEN LAKE SILVER MINES LIMITED

By: Frank Cadesky,
President

SILVER TOWN MINES LIMITED

By: James P. Arnott,
President

INFORMATION CIRCULAR RESPECTING THE MERGER OF

GLEN LAKE SILVER MINES LIMITED

SILVER TOWN MINES LIMITED

NOV - 8 1968

This Information Circular is furnished to the Shareholders of each of Glen Lake Silver Mines Limited (Glen Lake) and Silver Town Mines Limited (Silver Town) (the "Merging Corporations") in connection with the solicitation by Management of Glen Lake and Silver Town of proxies to be voted at the Special General Meeting of the Shareholders of Glen Lake and Silver Town to be held on the 25th day of November, 1968.

It is expected that the solicitation of proxies by the Management of Glen Lake and Silver Town will be primarily by mail. Proxies may also be solicited by the Directors of Glen Lake and Silver Town at nominal cost. Each respective company will bear the costs of proxies solicited on its behalf.

Glen Lake and Silver Town have respectively supplied the information relating to themselves contained in this Information Circular.

APPOINTMENT AND REVOCATION OF PROXIES

The Boards of Directors of Glen Lake and Silver Town have specifically approved the persons named in the form of proxy accompanying the Notice of Meeting for each of the said companies. The persons so named hold the offices of the company named in the form of proxy as stated therein.

Proxies in the form enclosed which are properly executed, returned to the Management soliciting same and not revoked, will be voted at the meeting with respect to which same are given in accordance with the authority contained therein and with respect to matters set forth in the Notice of such Meeting. A shareholder attending a meeting has the right to vote in person and if he does so his proxy is nullified with respect to the matter such person votes upon and subsequent matters thereafter to be voted upon at the meeting. A proxy may be revoked at any time before it is exercised by signing a proxy bearing a later date and delivering same for use at the meeting, or as to any matter on which a vote has not already been cast pursuant to the authority conferred by the proxy, by signing a written notice of revocation and by delivering it to the head office of the Companies, Suite 503, 365 Bay Street, Toronto, Ontario, at any time up to and including the last business day preceding the date of the meeting, or any adjournment thereof, or by handing it to the Chairman at the meeting.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the printed form of proxy accompanying the appropriate Notice of Meeting will vote the shares in accordance with the direction of the shareholder appointing them as indicated in the instrument of proxy or as otherwise in writing instructed. Where no choice is indicated on the instrument of proxy nor contrary to written instructions received an affirmative vote will be cast. The said proxy shall confer discretionary authority upon the persons named with respect to amendments to or variations in the items set out in the form of proxy or any matters which may properly come before the meeting. At the time of printing this Information Circular the respective Managements of the Merging Corporations know of no such amendment or variation nor of any matter to come before each respective meeting other than as stated in the respective Notices of Meetings.

VOTING SHARES

Each of the companies has one class of shares. Each shareholder has the right to one vote. The number of shares of each company presently issued and outstanding is as follows:—

Glen Lake	3,100,005*
Silver Town	4,467,505

* of which 10,000 shares are held in trust for the benefit of Glen Lake. If the Merger Agreement hereinafter referred to is approved, it is proposed that these shares will form part of the 1,489,168 shares of Glen Lake to be issued to Silver Town.

INTEREST OF MANAGEMENT AND OTHERS

Set out hereunder are the names of the Directors and Officers of Glen Lake and Silver Town and the number of shares beneficially owned by each as at October 19, 1968.

	GLEN LAKE			SILVER TOWN		
	Officer	Director	Shares	Officer	Director	Shares
B. Nixon Apple, Q.C.	x	x	(1)			
James P. Arnott, Q.C.				x	x	12,025
Frank Cadesky	x	x	(1)	x	x	(1)
Dr. H. Roe Bartle		x	(1)		x	(1)
N. W. Lamport				x	x	10,000
R. W. Miller		x	(1)			(1)
F. F. McCluney		x	(1)		x	30,000

(1) Represents 1 share registered in Director's name to qualify as director but does not represent beneficial ownership.

Patricia M. Lorenz beneficially owns 606,500 shares of Glen Lake representing 19.6% of the issued and outstanding shares of Glen Lake. She also beneficially owns 294,000 shares of Silver Town.

Louis Cadesky, a senior officer of each of the Merging Corporations, beneficially owns 6,800 shares of Glen Lake and 320,000 shares of Silver Town.

PROPOSED ACQUISITION OF THE UNDERTAKING OF SILVER TOWN BY GLEN LAKE

Glen Lake and Silver Town entered into an Agreement dated October 19th, 1968 (the "Merger Agreement") respecting the acquisition by Glen Lake of the Undertaking of Silver Town. With this Information Circular there is reproduced a copy of the Merger Agreement which essentially provides for the sale of all of Silver Town's assets to Glen Lake for 1,489,168 shares of Glen Lake. Collaterally Glen Lake will discharge all of Silver Town's outstanding liabilities. These arrangements are subject to certain stock exchange and other regulatory approvals as well as confirmation by the Shareholders of the Merging Corporations. If the Merger is completed Silver Town will, if so authorized by its stockholders, terminate its corporate existence and distribute the aforementioned shares of Glen Lake to the Silver Town Shareholders who will receive 1 share of Glen Lake for every 3 shares of Silver Town presently held.

CERTAIN PROPERTY INTERESTS OF THE MERGING CORPORATIONS

Glen Lake and its wholly owned subsidiary, Hiho Silver Mines Limited, own and hold under lease various mining properties in the Cobalt Area, Ontario. These properties are reported upon by Mr. M. C. Halstead, Mine Manager of Glen Lake, whose Report accompanies this Information Circular. The property interests of Silver Town, which are particularized in Schedule "A" to the Merger Agreement, are also reported upon by Mr. Halstead. Glen Lake owns and operates the La Rose Mill. Silver Town owns and operates the Bailey Mill and also operates the United Cobalt Mill, which is held under lease from United Cobalt Mines Limited. In order to complete the acquisition of this Mill payments totalling \$44,000 would be required to be made to United Cobalt Mines Limited. Itemized appraisals of the three mills have been prepared by Mr. R. A. Warren, whose appraisal report also accompanies this Information Circular.

PRICE RANGES OF SHARES OF THE MERGING CORPORATIONS

Set forth below are price ranges of shares of the Merging Corporations during 1968 reflecting trading of their shares on the Canadian Stock Exchange.

	Glen Lake		Silver Town	
	High	Low	High	Low
January	\$2.50	\$2.00	55¢	47¢
February	\$2.45	\$1.85	48¢	40¢
March	\$2.65	\$2.25	50¢	40¢
April	\$2.65	\$2.10	49½¢	42¢
May	\$3.50	\$2.40	92¢	42¢
June	\$3.45	\$3.00	\$1.07	73¢
July	\$3.25	\$2.60	\$1.10	80¢
August	\$2.80	\$2.40	87¢	65¢
September	\$2.55	\$2.25	82¢	65¢
October (1st - 18th)	\$2.30	\$2.00	70¢	61¢

DIVIDENDS PAID BY GLEN LAKE

Since its inception, Glen Lake has paid the following dividends:—

<u>Dividend No:</u>	<u>Amount:</u>	<u>Paid:</u>
*1	10¢	November, 1963
*2	10¢	December, 1964
3	2½¢	March, 1965
4	2½¢	June, 1965
5	2½¢	September, 1965
6	2½¢	December, 1965
7	2½¢	December, 1966
8	2½¢	June, 1967
9	2½¢	June, 1967
10	2½¢	September, 1967
11	2½¢	December, 1967
12	2½¢	March, 1968
13	2½¢	June, 1968
14	2½¢	September, 1968

*Single annual dividend.

Dividends are currently being paid by Glen Lake at the rate of 2½¢ quarterly. A quarterly dividend in the amount of 2½¢ has been declared payable December 16, 1968 to shareholders of record December 6, 1968. If the Merger Agreement is ratified by the shareholders of the Merging Corporations, the 1,489,168 shares of Glen Lake to be distributed to the Silver Town Shareholders will also qualify for this dividend.

SPECIAL BUSINESS TO BE DEALT WITH AT THE MEETING OF SHAREHOLDERS OF SILVER TOWN MINES LIMITED

The Shareholders of Silver Town will be asked to confirm the Special Resolution referred to in the Notice of Meeting sent to the Silver Town Shareholders, such Special Resolution ratifying, approving, confirming and sanctioning, with or without variation, the Merger Agreement between Silver Town and Glen Lake. The approval of the Merger Agreement by Shareholders of Silver Town is required pursuant to the provisions of The Corporations Act (Ontario) since the Merger Agreement provides for the sale of Silver Town's Undertaking. The confirmation of such Special Resolution requires affirmation by at least ⅔ of the votes cast at the Special General Meeting of the Silver Town Shareholders. If such Special Resolution is not confirmed by the Silver Town Shareholders, or if the Glen Lake shareholders do not approve of the Merger Agreement, then the Merger Agreement will cease to be of any force or effect.

Assuming the foregoing Special Resolution is confirmed by the Silver Town shareholders, and that the requisite approval is also given by the Glen Lake shareholders, the shareholders of Silver Town will also be asked to pass a resolution authorizing Silver Town to make application for an Order accepting the surrender of Silver Town's Charter and to distribute the 1,489,168 shares of Glen Lake pro rata amongst the Silver Town shareholders so that they will receive 1 share of Glen Lake for every 3 shares of Silver Town held. Approval to the surrender of Silver Town's Charter requires affirmation by at least 50% of the votes cast at the Special General Meeting of the Silver Town Shareholders.

SPECIAL BUSINESS TO BE DEALT WITH AT THE MEETING OF SHAREHOLDERS OF GLEN LAKE SILVER MINES LIMITED

Glen Lake is convening an Annual and Special General Meeting of its shareholders. A copy of the Glen Lake Annual Report covering its fiscal year ending July 31st, 1968 as well as a separate Information Circular circularized among the Glen Lake shareholders are also being forwarded to the shareholders of Silver Town. Aside from the two By-Laws which the Glen Lake shareholders will be asked to ratify and confirm as set forth in such other Information Circular, the shareholders of Glen Lake, as set forth in the Notice calling the Special General Meeting of Glen Lake's shareholders, will be asked to consider and, if deemed advisable, ratify and approve, with or without variation, the Merger Agreement which provides for the issuance of 1,489,168 shares of Glen Lake to acquire the Undertaking of Silver Town. Such acquisition is conditional upon and subject to approval of the Special Resolution to be considered by the Silver Town shareholders. Due to the importance of the proposed Merger, the Directors of Glen Lake felt that same should be submitted to Glen Lake shareholders for their consideration. The adoption of the Merger Agreement by Glen Lake shareholders requires affirmation by at least 50% of the votes cast at the Special General Meeting of the Glen Lake shareholders. If the Glen Lake shareholders do not approve the Merger Agreement, then same will cease to be of force and effect and Management of Glen Lake has no present plans for such an eventuality.

MEMORANDUM OF AGREEMENT made the 19th day of October, 1968.

BETWEEN:

GLEN LAKE SILVER MINES LIMITED,
a corporation organized under the laws of the Province of Ontario,
hereinafter referred to as "Glen Lake"

OF THE FIRST PART

—and—

SILVER TOWN MINES LIMITED,
a corporation organized under the laws of the Province of Ontario,
hereinafter referred to as "Silver Town"

OF THE SECOND PART

WHEREAS Glen Lake is a valid and subsisting company duly incorporated and organized under the laws of the Province of Ontario with an authorized capital divided into 5,000,000 shares of the par value of \$1 each whereof 3,100,005 shares are issued and outstanding as fully paid and non-assessable and whereof 10,000 shares are held by a trustee in trust for the benefit of Glen Lake;

AND WHEREAS Silver Town is also a valid and subsisting company duly incorporated and organized under the laws of the Province of Ontario with an authorized capital divided into 5,000,000 shares of the par value of \$1 each whereof 4,467,505 shares are issued and outstanding as fully paid and non-assessable;

AND WHEREAS Glen Lake has agreed to acquire the Undertaking of Silver Town and Silver Town has agreed to sell its Undertaking to Glen Lake, all upon the various terms and conditions all as more particularly hereinafter set forth;

NOW THEREFORE THIS AGREEMENT WITNESSETH that for and in consideration of the mutual covenants and agreements herein contained, it is hereby agreed by and between the Parties hereto as follows:—

1. Silver Town agrees to sell to Glen Lake all of its moveable and immoveable property, the same to include all exploration and development expenses of whatsoever nature and kind incurred incidental to or in connection with Silver Town's mining properties and interests therein, all of the foregoing being hereinafter referred to as Silver Town's "Undertaking". Silver Town represents and warrants that included in its Undertaking are those mining properties and assets more particularly described in Schedules "A" attached, and that the nature of Silver Town's title thereto is also summarized in said Schedule "A".
2. Glen Lake agrees to purchase Silver Town's Undertaking for the price or consideration of \$2,978,336 to be paid and satisfied by delivery to Silver Town of a certificate for 1,489,168 fully paid and non-assessable shares of the capital stock of Glen Lake, such certificate to be delivered to Silver Town at the time of closing referred to in paragraph 7 hereof and said certificate to be registered in the name of Silver Town or its nominee. Glen Lake shall, incidental to the purchase of Silver Town's Undertaking, duly pay and discharge all of Silver Town's liabilities, and pay any and all costs incurred by Silver Town incidental to its surrendering its Charter as provided in paragraph 6 hereof. The purchase price payable by Glen Lake to Silver Town as aforesaid has been calculated in accordance with the particulars set forth in Schedule "B" to this Agreement, and which amounts have been agreed upon by the Parties, provided that if hereafter any of such calculations are disputed or contested by the Department of National Revenue or any branch thereof it is agreed that valuations so assigned shall be varied as may be required under the circumstances by Glen Lake.
3. This transaction shall be subject to and conditional upon the approval of the shareholders of both Glen Lake and Silver Town being given to this agreement, and in the case of Silver Town such approval shall be given by not less than two-thirds of the votes cast at the meeting of its shareholders. Glen Lake and Silver Town shall with all due dispatch convene special general meetings of their respective shareholders and the approval of this agreement shall be recommended by management of the companies for shareholders' approval. This agreement shall also be subject to and conditional upon approval thereto being given by the Canadian Stock Exchange, and the obtaining of such consents or approvals from the Ontario Securities Commission and the Quebec Securities Commission as counsel to the companies may deem appropriate; provided, that any of the foregoing approvals and/or consents may be waived by the Parties.
4. Glen Lake acknowledges that it has investigated the title of Silver Town to its various assets described in Schedule "A" hereto, and Glen Lake agrees to accept same in their present state of title. Silver Town represents and warrants that such title will, at the time of closing, be the same as at the date hereof.

5. Each of the Parties have had audited financial statements of their affairs prepared as at July 31st, 1968, and which audited financial statements have been delivered by each Party to the other. It is acknowledged by and between the Parties that they have made such investigations into each other's financial affairs as they deemed appropriate and that they accept the figures contained in said audited financial statements.

6. If this agreement is duly approved by the Silver Town shareholders as provided in paragraph numbered 3 hereof, Silver Town shall collaterally seek its shareholders' approval to its making an application to the Lieutenant Governor of the Province of Ontario for an Order accepting the surrender of its Charter. If such approval is given Silver Town shall then with all due dispatch proceed to surrender its Charter and distribute the shares of Glen Lake received by it pursuant to the provisions of paragraph numbered 2 hereof amongst its stockholders pro rata so that each shareholder of Silver Town will be entitled to receive 1 share of Glen Lake for every 3 shares of Silver Town presently held.

7. The transaction of purchase and sale contemplated by this agreement shall be closed at the offices of Messrs. Salter, Reilly, Jamieson & Apple, 302 Bay Street, Toronto, Ontario, on such business day and at such time during normal business hours as either of the Parties may notify to the other in writing, such notice to be given only after approval to this agreement has been given by the stockholders of both companies, and such notice shall be given not less than three (3) days before the time of closing. On closing the certificate for shares of Glen Lake shall be delivered to Silver Town and Silver Town shall execute and deliver all such deeds and documents as may be necessary or reasonably required to transfer the title of its Undertaking to Glen Lake. Silver Town shall also effect due compliance with The Bulk Sales Act of the Province of Ontario or obtain an appropriate Order from a Judge in this regard.

8. Pending the completion of this transaction of purchase and sale the business of Silver Town shall be continued in its normal course, and Silver Town agrees not to enter into any commitments save those which are entered into in the normal course of its business.

9. Time shall be strictly of the essence of this Agreement.

10. Any notice required to be given hereunder to Silver Town or Glen Lake shall be in writing and may be given by mailing the same in a prepaid registered letter addressed to them at Room 503, 365 Bay Street, Toronto, Ontario, or to such other address or addresses as the Parties may notify to each other in writing. And any notice so given shall be deemed to have been given on the day next following the posting thereof.

11. This Agreement shall enure to the benefit of and be binding upon the Parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF the Parties hereto have executed this Agreement.

SIGNED, SEALED AND DELIVERED
in the presence of

GLEN LAKE SILVER MINES LIMITED

By: Frank Cadesky
President

B. Nixon Apple
Secretary

SILVER TOWN MINES LIMITED

By: James P. Arnott
President

Frank Cadesky
Secretary

**This is Schedule "A" referred to in the annexed agreement dated October 19th, 1968, between
Glen Lake Silver Mines Limited and Silver Town Mines Limited.**

Trinova Property:—

Lease dated February 4, 1963 as amended, with Trinova Cobalt Silver Mines Limited covering the following mining properties located at Cobalt, Ontario, and recorded in the Land Titles Office at Haileybury:

Parcel 2714 Nipissing North Division; Parcel 5301 South Section Temiskaming; Parcel 5334 South Section Temiskaming; Parcel 15216 South Section Temiskaming; and Parcel 15217 South Section Temiskaming. Title to the Trinova property is held as patented property by Trinova Cobalt Silver Mines Limited, subject only to the provisions of the lease to Silver Town, and of certain rights of easement for the maintaining of electric lines and pipe lines.

Title is also subject to an agreement dated May 31st, 1967 with Agnico Mines Limited whereunder it was granted certain underground rights of access through underground workings on the Trinova property. Said lease runs for a term of five years from March 11, 1963, (now from March 11, 1968) with the right to renew the lease in perpetuity for further periods of five years each. Under said lease Silver Town as Lessee, pays an annual rental of \$10,000 per year payable in advance. The lease may be terminated by Silver Town at any time on giving one month's notice; provided, however, that annual rental payments aforementioned may be applied in reduction of royalties payable to Trinova under the provisions of the lease. The lease enables Silver Town to carry out exploration and mining operations in, on and under the Mining Claims. Silver Town is obligated to pay a royalty to Trinova of 10% of the net smelter returns on all ore shipped from the Trinova property. Net smelter returns is defined to mean the amount paid by an independent custom smelter, mill, mint or other purchaser for ores and minerals extracted by Silver Town from the Trinova property, or for concentrates therefrom after deducting all charges and penalties from treatment and refining done by such custom smelter, and in calculating net smelter returns there is deducted therefrom all sampling and assay charges made or levied in connection with sampling and assaying carried out after ores have left the Trinova property.

United Cobalt Property and United Cobalt Mill:—

Lease dated May 29, 1968, with United Cobalt Mines Limited, covering the following mining properties located at Cobalt, Ontario, and recorded in the Land Titles Office at Haileybury:

Parcels 1878, 4199 and 5004, Nipissing North Division; Parcel 8593 South Section Temiskaming; and Parcel 4611 Leasehold-Temiskaming, the same being subject to various easements. The lease permits Silver Town to carry out exploration and mining operations in, on and under the Mining Claims and runs until July 31st, 1969 and thereafter the term of the lease is renewable automatically for succeeding periods of one year ending on the 31st day of July in each year unless Silver Town terminates the lease upon written notice not less than one month prior to July 31st in a given year. If the lease is terminated it may be terminated with respect to the Mining Claims and/or the United Cobalt Mill located thereon. A Mill was located on this property at the time of the lease, which mill has been rehabilitated and added to by Silver Town. Rental on the United Cobalt Mill is payable in the amount of \$12,000 for the first year of the term, of which \$6,000 has been paid and a further \$6,000 is payable, and thereafter additional rental is payable at \$1,000 monthly on the first day of each month commencing August, 1969 with provision that Silver Town may at any time elect to purchase the United Cobalt Mill for the sum of \$50,000, less all rental monies theretofore paid to United Cobalt. In the event of purchase, Silver Town is entitled to receive easements necessary to retain the United Cobalt Mill in its present position with appropriate easements for the purposes of ingress and egress and the piling of tailings. Additional rental for the use of the Mining Claims is payable at the rate of \$50 per month from the inception of the lease for a period of one year or until de-watering of the shaft on the United Cobalt property commences, whereupon rental is payable at the rate of \$500 per month. Silver Town is also obliged to pay a royalty to United Cobalt calculated on net smelter returns at the rate of 5% thereof save that the royalty is at the rate of 10% with respect to all material removed from the Mining Claims and not milled or otherwise beneficiated prior to shipment. All rentals at \$50 or \$500 per month, as the case may be, may be offset against royalties calculated on net smelter returns. Net smelter returns are deemed to mean the amount paid by any independent custom smelter, mill, mint or other purchaser for ores and minerals extracted by Silver Town from the Mining Claims or for concentrates therefrom after deducting all charges and penalties for treatment and refining done by such custom smelter, the cost of shipping such ores, minerals or concentrates from the Mining Claims to the purchaser thereof and all sampling and assaying charges made or levied in connection with sampling and assaying carried out after such ores, minerals or concentrates have left the Mining Claims.

Bailey Mill:—

Owned by Silver Town save for certain equipment the property of Hiho Silver Mines Limited referred to in appraisal made of the Mill, the same located on the Bailey property leased by Glen Lake with appropriate easements to Silver Town to enable ingress and egress to the property and the conduct of mining operations.

This is Schedule "B" referred to in the annexed agreement dated October 19th, 1968,
between Glen Lake Silver Mines Limited and Silver Town Mines Limited.

United Cobalt Mill at appraised market value	\$308,020.00	
Less — balance payable on lease	44,000.00	\$ 264,020.00
		<hr/>
Bailey Mill at appraised value		218,265.00
Miscellaneous assets		
Head office furnishings and leasehold improvements	4,626.15	
Refundable deposits	5,649.19	
Buildings and Equipment other than mills	85,471.78	
Mine supplies	4,208.70	
Prepaid expenses	9,182.92	109,138.74
		<hr/>
Leased mining properties		2,634,887.45
		<hr/>
		3,226,311.19
Less excess of liabilities payable over current assets:		
Current liabilities July 31, 1968	294,485.84	
Current assets July 31, 1968	46,510.65	247,975.19
		<hr/>
1,489,168 shares of Glen Lake @ \$2.00 each		\$ 2,978,336.00

GLEN LAKE SILVER MINES LIMITED

And its wholly-owned subsidiary, Hiho Silver Mines Limited

CONSOLIDATED PRO-FORMA BALANCE SHEET — JULY 31, 1968

ASSETS

Current assets:

Cash	\$	33,529	
Smelter settlement outstanding		706,399	
Concentrates on hand and in transit, at estimated net realizable value		124,248	
Receivable from affiliated companies		4,350	
Miscellaneous receivables and advances		17,616	\$ 886,142

Investment:

Shares in Silver Leader Mines Limited, at cost (no quoted market value)			41,250
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Fixed assets, at cost:

Buildings and equipment	\$1,226,308		
Less accumulated depreciation	451,319	\$	774,989
Mining leases		2,669,893	
Mining claims		212,000	
Surface rights		2,550	3,659,432

Deferred expenditures and other assets:

Development and preproduction expenditures	\$	427,344	
Shaft sinking and related costs		293,666	
	\$	721,010	
Less accumulated amortization	650,395	\$	70,615
Mine supplies, at cost		52,129	
Prepaid expenses		32,899	
Income taxes refundable		7,775	
Refundable deposits		20,466	
Special refundable tax		9,550	
Estimated expenses of merger		35,000	228,434
			<u>\$4,815,258</u>

LIABILITIES

Current liabilities:

Bank loan	\$	39,940	
Wages and payroll deductions payable		64,776	
Royalties payable		5,681	
Accounts payable		311,194	
Advances received re concentrates in transit		17,100	
Estimated liability for Ontario mining taxes		38,201	
Dividends payable		77,250	
Payable to affiliated companies		65,453	\$ 619,595

SHAREHOLDERS' EQUITY

Capital stock:

Authorized:			
5,000,000 shares, par value \$1 each			
Issued or to be issued:			
3,100,005 shares issued	\$3,100,005		
Less discount thereon	2,330,000	\$	770,005
1,479,168 shares to be issued for the net assets of Silver Town Mines Limited	\$1,479,168		
Add premium thereon	1,479,168	2,958,336	
<u>4,579,173 shares</u>		<u>\$3,728,341</u>	

Contributed surplus		20,000	
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Retained earnings		447,322	4,195,663
			<u>\$4,815,258</u>

See note to the Consolidated Pro-Forma Balance Sheet.

GLEN LAKE SILVER MINES LIMITED

NOTE TO CONSOLIDATED PRO-FORMA BALANCE SHEET — JULY 31, 1968

This pro-forma balance sheet gives effect to the acquisition of all the assets and undertaking, subject to all the liabilities of Silver Town Mines Limited for the issuance of 1,479,168 treasury shares and 10,000 donated shares of the capital stock of Glen Lake Silver Mines Limited.

The directors have placed a value of 2.00 per share (quoted market at Oct. 11, 1968) on the aforesaid 1,489,168 shares. The assets and liabilities to be acquired from Silver Town Mines Limited are recorded on the pro-forma balance sheet at book value except for the mill buildings and equipment and the mining leases.

The mill buildings and equipment to be acquired from Silver Town are recorded at market value as appraised by R. A. Warren Equipment Co. Limited.

\$2,634,888 has been attributed to the mining leases acquired from Silver Town. This amount represents the excess of the value placed on the aforesaid 1,489,168 shares of Glen Lake over the assets acquired and liabilities assumed (recorded as mentioned above).

\$35,000 has been recorded on the pro-forma balance sheet as the estimated expenses of merger.

SILVER TOWN

(Incorporated under the law of Ontario)

Balance Sheet —

ASSETS

Current assets:

Cash	\$	4,127	
Smelter settlements outstanding		1,897	
Concentrates on hand and in transit, at estimated net realizable value ..		39,996	
Miscellaneous receivables and advances		490	\$ 46,510
			<hr/>

Fixed assets:

Mining leases, at nominal value (Note 1)	\$	2	
Buildings and equipment, at cost less amounts written off (Note 2)		200,059	
Rehabilitation of leased mill (Note 2)		51,552	
Head office furnishings and leasehold improvements, at cost (Note 2) ..		4,626	256,239
			<hr/>

Deferred expenditures and other assets:

Exploration, development and administrative expenditures (Note 3)	\$	629,391	
Refundable deposits		5,649	
Incorporation and organization costs		3,111	
Mine supplies, at cost		4,209	
Prepaid expenses		9,183	651,543
			<hr/>
			<u>\$ 954,292</u>

AUDITOR

To the Directors of
Silver Town Mines Limited

We have examined the balance sheet of Silver Town Mines Limited as to the deferred expenditures and deficit for the five months ended July 31, 1968. Our examination was limited to the records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Silver Town Mines Limited as at July 31, 1968, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding years.
Toronto, Ontario,
October 10, 1968.

MINES LIMITED

(Incorporated in the Province of Ontario)

July 31, 1968

LIABILITIES

Current liabilities:

Bank loan	\$ 39,940	
Wages and payroll deductions payable	21,296	
Advance received re concentrates in transit	17,100	
Accounts payable	150,746	
Payable to affiliated companies for use of personnel, mill and other facilities	65,404	\$ 294,486

SHAREHOLDERS' EQUITY

Capital stock:

Authorized:

5,000,000 shares, par value \$1 each

Issued and fully paid:

4,467,505 shares	\$4,467,505	
Less discount thereon	3,692,813	\$ 774,692

Deficit	114,886	659,806
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Approved on behalf of the Board of Directors:

JAMES P. ARNOTT, Director.

N. W. LAMPORT, Director.

\$ 954,292

REPORT

July 31, 1968, and the statements of deferred exploration, development and administration included a general review of the accounting procedures and such tests of accounting

the company as at July 31, 1968 and its activities for the five months ended July 31, consistent with that of the preceding year.

LAVENTHOL KREKSTEIN HORWATH & HORWATH

Chartered Accountants.

SILVER TOWN MINES LIMITED

DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATIVE EXPENDITURES

For the five months ended July 31, 1968

Development and exploration:

Coleman Township, Ontario:

Surface work and exploration	\$ 7,965
Underground development	95,199
Mine general and office expenditures	13,637
Mine lease rentals	4,583
Dam and draining lake	11,398
Stoping	27,486
Custom milling	21,631

\$ 181,899

Less: Revenue from sale of ore less smelter and other

marketing costs \$ 70,301

Mill rental revenue 19,554 89,855 \$ 92,044

Administrative expenditures:

Legal and audit fees	\$ 5,770
Accounting services	937
Officer's salary	1,000
Publicity and shareholders' information	1,185
Government fees and licenses	110
Stock exchange fees	100
Transfer agent's fees and expenses	433
Office rent	500
Interest and bank charges	855
Miscellaneous expenses	116

11,006

Total expenditures for the period \$ 103,050

Balance deferred at February 29, 1968 526,341

Balance deferred at July 31, 1968 \$ 629,391

STATEMENT OF DEFICIT

For the five months ended July 31, 1968

Balance at February 29, 1968 \$ 117,516

Less adjustment to prior year profit on sale of mill and equipment 2,630

Balance at July 31, 1968 \$ 114,886

SILVER TOWN MINES LIMITED

NOTES TO FINANCIAL STATEMENTS

July 31, 1968

Note 1 — Mining leases

a. Trinova lease:

By an agreement dated February 4, 1963, the company obtained a lease on five parcels of mining lands in the Township of Coleman, District of Temiskaming, Province of Ontario. The lease is renewable annually in perpetuity and provides for annual rentals of \$10,000. The lease also provides for a royalty of 10% of net smelter returns on all ore shipped from the leased mining lands. The annual rentals are deductible from all royalties payable by the company to the lessor.

b. United Cobalt lease:

By an agreement dated May 29, 1968, United Cobalt Mines Limited leased to the company certain mining properties and the mining plant situated thereon. This property is located near the company's leased property in the Township of Coleman.

The lease is for a period of one year with the right of annual renewal in perpetuity. The lease provides for the payment of \$12,000 annual rentals for the use of the mining plant. In addition, the company is to pay \$50 per month for the use of the mining properties for a period of one year or until Silver Town commences dewatering the shaft on the said property, whichever shall first occur, and thereafter rental shall be payable at the rate of \$500 per month. The lease also provides for the payment of a royalty at the rate of 5% of net smelter returns for all concentrates marketed and at the rate of 10% on all ore removed from the mining properties which was not milled or otherwise processed prior to shipment. All mining property rentals paid as aforesaid are deductible from all royalties payable by the company to United Cobalt.

Silver Town has the option to purchase the mining plant for the sum of \$50,000 less all rentals paid for the use of the said mining plant.

For accounting purposes the aforesaid leases have been recorded at a nominal value of \$2.

Note 2 — Depreciation

As the company is in the development stage, no depreciation or amortization is provided on mine buildings and equipment, rehabilitation of leased mill, and head office furnishings and leasehold improvements, except that in the fiscal year ended February 28, 1966 certain buildings and equipment were written down to nominal value.

Note 3 — Revenue from sale of ore

Although the company has sold ore from time to time, in the opinion of management the company has not attained production in commercial quantities. Accordingly, proceeds from the sale of ore have been deducted from deferred development.

Note 4 — Transaction subsequent to balance sheet date

On October 19, 1968, the Company entered into an agreement with Glen Lake Silver Mines Limited, providing for the sale of its assets and assumption of its liabilities in exchange for 1,489,168 shares of Glen Lake Silver Mines Limited. This agreement is conditional upon the approval of the shareholders of both Companies, the Canadian Stock Exchange and the Ontario & Quebec Securities Commissions.

In August 1968, the Company received an advance of \$100,000 from Glen Lake Silver Mines Limited.

GLEN LAKE SILVER MINES LIMITED

October 10, 1968.

The President and Directors
Glen Lake Silver Mines Limited
Suite 503 - 365 Bay Street
Toronto 1, Ontario.

Gentlemen:

I am submitting herewith my report on the Glen Lake Silver Mines property and its wholly-owned subsidiary Hiho Silver Mines property, all located in Coleman Township and Gillies Limit in the Cobalt area.

The properties are owned outright or leased and since being acquired have produced in excess of seven million ounces of silver and future prospects for continued silver production looks good.

Glen Lake Mine holds under lease the Bailey and Powell Mining Claims of 58 acres on which property was found the Glen Lake Mine.

Hiho Silver Mines Limited, Glen Lake's wholly-owned subsidiary, owns the adjacent property lying to the south known as the University Mine, the Cleopatra Mine, the Giroux Lake Mine and Mining Claims PB-124; A 47; A 49; A 50; and A 51. In addition, the Company holds leases on the Lawson Mine, the Kerr Lake Mine, the Conisil Mine, the Brady Lake Mine and Mining Claims of the Silver Miller group amounting to 827 acres.

In addition to the above, the Company has a lease on the Crown Reserve Mine of 22 acres and 16 Mining Claims known as the Nu Silco Mining Property consisting of 340 acres. Glen Lake Silver Mines Limited and Hiho Silver Mines Limited hold under ownership and lease 1,632 acres of mining lands.

The Company also owns a 250 ton mill. It is located on the LaRose Mining Property which was bought from Silver Miller Mines Limited. The mill was built on the east side of the railway opposite the Town of Cobalt. The mill is currently being increased to over 300 tons per day and by next spring could be up to 500 tons per day.

The ore being mined by Glen Lake and Hiho Silver Mines Limited is being treated in two mills. The Highgrade silver ore from the mines is treated in the Silver Town mill which is located on the Glen Lake property. The low grade ore from surface dumps which averages 3.5 to 4 ounces of silver per ton, is treated in the Hiho LaRose mill.

There is an estimated 200,000 tons of low grade ore remaining in the dumps from which we are hauling. An increase in the price of silver to \$3.00 per ounce would make other large dumps on the properties you hold, commercial ore. Increasing the mill to 500 tons per day will also make some of these dumps commercial at present prices.

In the Cleopatra and Giroux Lake Mines, low grade and Highgrade silver ore is mixed. Our grade for the past year has averaged 23.79 ounces of silver per ton. The grade of ore for the next year should be approximately the same. Ore reserves in the mines are never shown as blocked-out ore, but as possible ore, and at the present time indicate 36,500 tons. The greater part of which is located in the Giroux Lake Mine.

The Giroux Lake Mine lies entirely under Giroux Lake and Dynamite Island. It is here where we have found our longest silver vein. Stopping on this vein has a lateral length of 732 feet.

Your Company has carried out continuous exploration since its inception in 1961 and continues to do so. A silver bearing structure was located by diamond drilling between 500 and 600 feet south of the Giroux Lake Mine. The intersection showed high grade and low grade silver ore. A cross cut 2,500 feet in length is being driven to this area from the Conisil mine shaft by contract. The cross cut is now at 2,200 feet and should reach its objective some time next month. If the silver bearing veins in this area are similar to the ones we have been mining, this new area could add several years to the life of your underground mining operations.

Silver production for the Past-Fiscal year was 1,154,850.36 ounces; an increase of 47,234.57 ounces of silver over the previous year.

Ore was mined from 6 stopes on the Glen Lake Property; 22 stopes on the Hiho Cleopatra Property and 5 stopes on the Hiho Giroux Lake Property.

6,641 feet of surface diamond drilling and 43,557 feet of underground diamond drilling were completed during the year. 256,905 feet of exploratory diamond drilling taking in both surface and underground have been drilled since 1961. Diamond drilling has found all of our ore, and has found new ore in walls and cross veins parallel and adjacent to stopes being mined throughout the year.

Total cross cutting in our mine to date is 11,181 feet; total drifting on veins 10,459 feet and raising 3,514 feet.

In addition to exploration being carried out at our three main mines, work has been done on our other local mining properties:

The Kerr Lake Mine was dewatered and underground and surface diamond drilling is being carried out. Some calcite veins were cut showing low silver values but no commercial ore intersections have been located to date.

Line cutting and soil testing have been carried out over a large area of our holdings. This work has indicated some targets for diamond drilling.

Working conditions in our mines are good. Last year we won the Award of Merit in the Hand Injury Campaign conducted throughout the year by the Mines Accident Prevention Association of Ontario and this year we won the M.A.P.A.O. Award of Merit in the Slips and Falls Campaign.

These awards were presented to the Company at the annual meeting of the Mines Accident Prevention Association of Ontario.

Respectfully submitted,

M. C. HALSTEAD, B.Sc., P.Eng.,
General Manager

SILVER TOWN MINES LIMITED

The President and Directors
Silver Town Mines Limited
Suite 503 - 365 Bay Street
Toronto 1, Ontario.

October 11, 1968

Gentlemen:

The following report sets out your present holdings in the Cobalt, Ontario Mining Area in regards to property and mills, your mining activity to date and plans for further development of your holdings.

The property held by Silver Town Mines Limited takes in 195 acres lying below the waters of Peterson and Cart Lakes, 18.5 acres being land 33 feet wide on the shore of Peterson and Cart Lakes, 29 acres known as the Nova Scotia property and 13.5 acres lying adjacent to Peterson Lake and the Nova Scotia property. There are 257.5 acres in all.

The Company also holds a lease on the United Cobalt Mines Limited properties as follows: King Edward and Victoria Mining property, the Webb property, the Silver Cliff and Airgoid Mining properties. These properties are adjacent and lie on the south-west side of Crosswise Lake. In this group there are 208.9 acres more or less, making a total of 466.4 acres held by Silver Town Mines Limited.

Your wholly-owned 150 ton mill located on the Bailey Mine property of Glen Lake Silver Mines is currently rented to Hiho Silver Mines Limited.

The United Cobalt mill, located at Crosswise Lake on the Silver Cliff mining property, is held on a lease purchase agreement. This mill is being used to mill tailings from Silver Town's Peterson Lake tailings stock pile. The mill is operating at 250 tons per day.

Production from your mine from 1963 to June 30, 1968 was 260,679.42 ounces of silver with a gross value of \$464,074.44.

Production from the break-in period of your tailings mill during August and September is 31,227 ounces of silver with a gross value of \$72,209.00.

During the past spring and summer, Peterson Lake was dewatered exposing the tailings which are estimated to contain 1,167,802 ounces of silver in 318,821 tons with a value of \$2,709,300.00 at today's price for silver. The United Cobalt mill has been rehabilitated for milling these tailings. It is treating 250 tons per day and will soon be treating 500 tons per day upon completion of installing a second ball mill unit.

Underground at the Peterson Lake property, a new vein 401N, has recently been discovered. It is now being developed. Drifting has opened up the vein along a length of 175 feet. It has an average width of 3 inches and averages from a low of 45 ounces silver per ton to 833.7 ounces silver per ton. Some sections show highgrade silver suitable for bagging. This ore would average 2,500 to 3,000 ounces silver per ton. At this date, it is not known how far the ore extends above or below the present level, and its lateral extent has not been delimited.

There is a large area to the east of your present workings. It all lies below the diabase sill which has a depth of 1,000 feet at your eastern boundary. All this area is favourable for silver deposits. Part of this will be explored from your present Silver Town Mine workings as these lie below the diabase sill at the west.

Present plans are to explore the deep eastern part from the recently acquired King Edward property of United Cobalt mine which has an internal winze from surface level to a depth of 1,140 feet, and a level established at a depth of 1,093 feet which is within 400 feet of the Silver Town property. As shown on map P-97 from the Ontario Department of Mines report PR 1961-4, this property is in the central part of the Peterson Lake Nipissing diabase basin which also puts the north east part of the Nova Scotia and Peterson Lake property in the same basin area.

It is to be noted that the Rix-Athabasca Mining Company who did the work on the lower contact on the King Edward property, recovered 425,986 ounces of silver. The Resident Manager, E. Rudd, recommended a joint effort to continue their crosscuts into the Nova Scotia property to explore the favourable part of the basin on Silver Town's property.

The following comment is found in the Ontario Department of Mines Report PR 1961-4 on Page 26 in regards to the work done by Rix-Athabasca: "This discovery in an unexplored part (insofar as the bottom diabase contact is concerned) of the camp is significant and important. The depth (estimated at 240 feet) in Keewatin rocks below the bottom contact of an intersection with as high a silver assay return as that obtained is unusual."

This is reported so that you will know highgrade silver is found below the diabase sill in the Keewatin formation in this particular area.

Silver Town Mines have on the United Cobalt lands 1,000,808 tons of tailings. A preliminary sampling has been made of these tailings and it will be completed after freeze-up, when sampling of tailings under water and soft areas can be undertaken. There is one area which shows a silver grade similar to that being milled in the Silver Town mill at the present time. However, it is too early to give a final assessment of these tailings. This will be done when work can be completed after freezeup.

Respectfully submitted,

M. C. HALSTEAD, B.Sc., P.Eng.,
Consulting Engineer.

R. A. WARREN EQUIPMENT CO.
LIMITED

Machinery and Supplies
Mining — Pulp and Paper Industry — Construction
1075 McKEOWN AVENUE - NORTH BAY, ONTARIO

October 9, 1968.

Glen Lake Silver Mines Limited,
Cobalt, Ontario.

Attention: Mr. M. Halstead — General Manager

Dear Sir:

Attached is a listing of equipment as well as appraisals of three mills located in Cobalt area.

The mills appraised are:

1. On Glen Lake Mines Location.
2. At Cross Lake location, formerly United Cobalt Mill.
3. LaRose Mill, formerly Silver Miller.

In arriving at the respective values assigned to the various Items listed in my report, the valuations have been calculated on the basis of replacement cost less depreciation to arrive at a reasonable market value. In other words, the valuations represent the current value of the items, or what a willing buyer would be prepared to offer and a willing seller accept under non-distress sale or purchase conditions.

Since 1945, to 1958, the writer has worked in the selling field of various Equipment Manufacturers such as Canadian Ingersoll Rand, Canadian Vickers, etc. Since 1958 the writer was instrumental in organizing R. A. Warren Equipment Co. Ltd. which deals strictly with New and Used Mining Equipment.

Yours very truly,

R. A. WARREN EQUIPMENT CO. LTD.

"R. A. Warren."

September 26, 1968.

**SILVER TOWN (BAILEY) MILL on
GLEN LAKE SILVER MINES PROPERTY**

Capacity 150 Tons per day, ore from underground Mining Operations.

Design and Engineering	33,000.00
	Price Installed
1 Grizzly at top of coarse Ore Bin	1,500.00
1 Coarse Ore Bin, 200 Ton Capacity — Wood Stave, 16' Dia. x 20'	4,200.00
1 36" x 22" Belt Conveyor, 20" Head and Tail Pulleys 6 Troughing Idlers c/w 7-1/2 HP Electric Motor and Speed Reducer	1,275.00
1 15" x 24" Blake Jaw Crusher, One piece frame c/w 40 HP Motor and "V" Belt drive	12,750.00
1 19" Allis Chalmers Hydroclone Secondary Gyratory Crusher c/w "V" Belt drive and 20 HP Motor	10,500.00
1 Complete Dust Fan, Cyclone Type with 5 HP Motor	2,700.00
1 22" Circular Magnet for use over Belt Conveyor	1,250.00
1 20" Belt Conveyor, 60' long, consisting of 19 5" Troughing Idlers, with 14" Dia. Head & Tail Pulleys, drive is 5 HP Gearmotor with chain drive	1,600.00
1 4' x 6' Dillon, Double Deck Vibrating Screen c/w 3 HP Motor and "V" Belt drive	3,700.00
1 16" Return Conveyor x 60' long; consisting of 17 5" Troughing Idlers, Head and Tail Pulley with 2 HP Electric Motor and Speed Reducer	1,400.00
1 16" Conveyor to Fine Ore Bin 25' long	750.00
2 16' x 16' Wood Stave Fine Ore Bins	5,600.00
1 18" Belt Conveyor 10' long, 4 Troughing Idlers Head and Tail Pulley, 2 HP Motor and Reducer	675.00
1 Soda Ash Feeder	1,000.00
1 6' x 8' Canadian Allis Chalmers Ball Mill c/w 150 HP Motor and Drive, liners and balls	23,500.00
1 5' x 5' Canadian Allis Chalmers Ball Mill, c/w drive, liners and balls	11,500.00
1 4' Akins Spiral Classifier c/w 15 HP Drive	8,750.00
2 12" x 18" Denver Duplex Mineral Jigs each with 1 HP Motor	4,400.00
3 3" x 3" SRL Pumps with 3 HP Motors	3,075.00
1 Distributor Box to Tables	200.00
2 6' x 15' Deister Concentrating Tables c/w Motors	2,900.00
1 Electric Pan Dryer 4' x 6'	1,200.00
1 6' x 6' Conditioner complete with mechanism and drive	1,600.00
1 2" Vertical SRL Sump Pump c/w 3 HP Motor	600.00
1 2" x 2" SRL Pump c/w 5 HP Motor (Spare)	625.00
3 Denver Cells #24 — 2 driven with one 10 HP Motor 1 driven with 5 HP Motor	4,700.00
6 Denver Cells #185P (one bank) c/w 5 HP Motor on each	8,600.00
1 2" x 2" SRL Pump c/w 3 HP Motor	750.00
1 10' x 10' Thickener c/w mechanism	1,925.00
1 2" Denver Diaphragm Pump c/w 2 HP Motor	475.00
1 Centrifugal Vacuum Pump c/w 2 HP Motor	390.00
1 3' x 3' Northern Foundry Drum Filter c/w 1 HP Motor and Speed Reducer	3,750.00
— Electric, wiring, piping and heating	13,500.00
1 8" Cyclone Classifier (not installed)	1,100.00
1 10" Moisture Press	425.00
2 Unit Heaters (not installed)	550.00
1 5 KVA Wet Transformer	275.00
1 2,000# Scale	350.00
1 Wire Winder for Drum Filter	375.00
12 Tons (approx.) 4" Balls	1,800.00*
4 Single Unit Wet Reagent Feeders	1,250.00
16 Drums, Flotation solutions	2,500.00*
— Transformer and Sub-station	16,000.00*
— Crusher Building — 50' long x 28' Wide x 20' High	9,800.00
— Conveyor-way 45' Long	3,800.00
— Mill Building 100' long x 37' wide x 30' high	26,000.00
	Total
	<u>\$238,565.00</u>

*Owned by Hiho Silver Mines Limited.

September 26, 1968.

SILVER TOWN MINES LIMITED

UNITED COBALT MILL — located at Cross Lake.

Ore feed — Tailings from Cross Lake.

Capacity — 500 Tons per day.

Design and Engineering Fee	43,000.00
	Price Installed
2 Tube Mills 5' x 16' c/w 150 HP Motors, Speed Reducers, liners, ball charges, scoops, all electrics	49,500.00
1 2 Drum 10 HP Electric Slusher Hoist c/w Scraper and Cable	3,250.00
1 24" Belt Conveyor x 34', with 14 Troughing Idlers, 6"; and 5 Idlers 5"; 20" Head and Tail Pulleys c/w 3 HP Gearmotor	1,125.00
2 Clarkson Single Unit Reagent Feeders c/w Motors	680.00
1 10" x 20" Blake Type Jaw Crusher c/w 30 HP Motor and Drive	9,250.00
1 2' Symons Cone Crusher c/w 35 HP Motor and "V" Belt Drive	15,500.00
1 16" Belt Conveyor x 20', less motor but with speed reducer	450.00
1 14" Belt Conveyor x 22'; 14" Head and Tail Pulley c/w 3 HP Motor and reducer	790.00
1 Soda Ash Feeder c/w Motor	1,000.00
1 30" x 8' Dillon Double Deck Vibrating Screen (less motor)	1,850.00
1 14" x 8' Belt Conveyor c/w 1 HP Motor and speed reducer	390.00
1 15 HP open motor 865 RPM 3/60/550	270.00
1 4' x 6' Drum Screen	1,725.00
1 20' x 14' Belt Conveyor	625.00
1 Bucket Belt Elevator 50' centers, wood frame 6" x 9" on 10" belt	6,800.00
1 Wood Stave Tank 12' x 20' high	2,200.00
1 Door double Rake Classifier 4' 6" x 16' with speed reducer	7,200.00
1 Fine Ore Bin 12' wide x 25' long x 15' high	2,600.00
1 Marcy Direct Reading Density Scale	225.00
1 Conditioner 6' dia. x 8' c/w 10 HP Motor	1,750.00
1 Conditioner 6' dia. x 5' c/w 5 HP Motor	1,575.00
1 Denver 4" diaphragm Pump c/w 2 HP Motor	1,150.00
1 Thickener 18' x 12' high c/w Mechanism and 2 HP Motor	4,500.00
8 Denver Cells #18, Special with one 5 HP Motor for 2 Cells	11,400.00
1 Thickener 12' dia. x 9' c/w 2 HP Motor, all mechanism, 2" Duplex Denver Diaphragm Pump with 3 HP Motor	4,300.00
1 3 x 4' Disc Filter c/w 1 HP Motor and Reducer and spare parts	6,750.00
2 6' x 6' Steel Tank Thickeners, one with mechanism and 5 HP Motor, one less mechanism	2,175.00
3 5' x 15' Wilfley Tables with 1-½ HP Motors	6,750.00
3 6" Krebs Cyclone Classifiers (to be installed)	1,550.00
1 8" x 12" Denver Duplex Jig	3,200.00
1 5" x 4" SRL Pump	980.00
1 12" Cyclone Classifier	875.00
1 9' dia. x 10' Thickener — Wood Stave c/w 10 HP Motor, all mechanism	2,850.00
1 Bank of 7 Wemco 56" Cells, each driven with 10 HP Motors	14,150.00
1 Bank of 2 Cells — as above	4,200.00
1 3" x 3" SRL Pump with 5 HP Motor	975.00
1 2" x 2" SRL Pump with 3 HP Motor	900.00
1 4" x 4" CIR Vacuum Pump 3 HP Motor	900.00
1 6" Quincey Vacuum Pump 3 HP Motor	985.00
1 Soda Ash Feeder	1,000.00
1 5" x 4" SRL Pump — less drive	1,075.00
1 3" x 3" SRL Pump — less drive	675.00
1 300 Ampere Lincoln Welder	975.00
Tools, spare parts, Flotation Solution, Soda Ash, Balls, Building Crusher and Ball Mill Section 50' x 40'	3,500.00
Mill Building 20' lower, 50' x 80'; built on hillside	58,000.00
Transformer station — transformer	5,200.00
Wiring, piping, heating, electric switch gear	17,250.00

Total \$308,020.00

September 26, 1968.

HIHO SILVER MINES LIMITED

LaRose Mill

Capacity — approximately 300 Tons per day.

Ore from Underground Mining Operation

Engineering and design	43,000.00
	Price Installed
1 Substation consisting of 3 Only 300 KVA Transformers and Switchgear	19,750.00
1 Grizzly, over ore bin	1,500.00
1 Coarse ore bin, 200 Ton capacity	2,800.00
1 15" x 24 Rogers, overhead eccentric Jaw Crusher c/w 50 HP Motor and "V" Belt drive	11,800.00
1 Dust Collecting System with fan, cyclone, tank, and 3" Vertical Denver Pump c/w 3 HP Motor	2,600.00
1 Belt Bucket Elevator, 65' centers, cased in framed plywood, buckets 6" x 9" c/w 7-½ HP Motor and Speed Reducer	4,500.00
1 Syntron 24" Vibrating Feeder c/w Ball Chain control chute gate	2,800.00
1 4' x 8' Double Deck Vibrating Screen c/w Motor	2,750.00
1 20" Belt Conveyor complete. Approx 75' centers with Dodge distributor core on rail, manually operated. 3 HP Motor and Reducer	3,300.00
1 3' Symons Shorthead Secondary Gyratory Crusher c/w 60 HP Motor, "V" Belt drive, oil tank and pump	25,500.00
2 I Beams and Crawls with 5 Ton chain blocks, one over each crusher	1,700.00
1 Belt Magnet c/w MG set 5 HP	2,250.00
1 20" x 20" Magnet Pulley (spare)	1,500.00
1 30" — 5 HP Fan	375.00
1 30" — 5 HP Fan (spare)	375.00
1 Belt Conveyor 20" x 25' c/w 3 HP Motor and Speed Reducer	725.00
2 Fine Ore Bins, wood stave 200 Ton capacity 20' x 20'	6,850.00
2 20" Belt conveyors x 18' — each with 6 Troughing Idlers 5"; 18" Head and Tail Pulleys c/w 1 HP Motor and reducer	990.00
1 18" Belt conveyor x 18' with 6 Troughing Idlers 5"; with 16" Head and Tail Pulleys c/w 1 HP Motor and Reducer	465.00
1 Soda Ash Feeder c/w Motor	1,000.00
2 Single Reagent Feeders	980.00
1 6' x 10' Marcy Ball Mill, one Trunnion, one tire, Grate discharge, c/w rubber liners, scoop feed, ball charge and 175 HP Motor and "V" Belt drive	39,000.00
1 5' x 5' Dominion overflow type ball mill c/w liners, ball charge and 75 HP Motor and "V" Belt drive	16,500.00
6 Tons (approx) 3" Ball Stock	900.00
1 Denver Duplex Jig 14" x 18" c/w 2 HP Motor	850.00
1 4" Vaseal Pump c/w 3 HP Motor	1,040.00
8 Wilfley Concentrating Tables 5' x 15' c/w 3 HP Motor	15,750.00
1 3" Vaseal Pump c/w 7-½ HP Motor	875.00
1 Distribution box	350.00
10 Denver #24 Flotation Cells c/w Motors 1-10 HP Motor driving 2 cells	17,500.00
1 2" x 2" SRL Pumps c/w 2 HP Motor	675.00
4 Denver #18 SP Flotation Cells c/w Motor	6,200.00
1 Thickener, Steel construction 10' x 12', c/w mechanism and 2" Diaphragm Pump	3,250.00
1 3' x 4' Drum Filter, Northern Foundry c/w 7-½ HP	5,450.00
1 Electrically heated rake dryer 30" x 16', c/w ½ HP Motor and Reducer	3,600.00
1 Thickener, 15' Dia. x 10, steel construction c/w 2 HP Motor and 2" Denver Diaphragm Pump	4,100.00

2	3" x 3" SRL Vertical Pumps c/w 3 HP Motors	1,750.00
1	3 HP Tank Mounted Compressor 100 PSI	850.00
1	C.I.R. Type 30 6" x 5" x 6" Vacuum pump with 5 HP Motor (spare)	1,250.00
1	C.I.R. Type 30 — 5" x 3-1/2" x 5" Vacuum Pump with 3 HP Motor	1,050.00
1	Denver 2" Vertical Pump with 2 HP Motor	775.00
1	Filtrate 1" Pump c/w 2 HP Motor	650.00
1	2" x 2" SRL Pump — no motor (spare)	475.00
4	Trane Circular Heaters	1,725.00
-	Sprinkler System	3,500.00
1	50 HP Volcano Boiler, Low Pressure, oil fired	4,300.00
1	400 Ampere Miller Welder	775.00
2	Spare Flotation Cells #24 — no motors	2,200.00
1	Set Gas Welding Equipment	275.00
	Tools, spare parts; i.e.: belts, chain sprockets, work bench, screens, conveyor belt, lab equipment	2,500.00
	Main Mill Building 52' x 155' x 18' High and 36' High at ore bin section. Crusher and conveyor building is 50' x 45' x 18' with excavation approximately 25' deep, concrete lined	86,400.00
1	6' x 10' Marcy Ball Mill, one trunion, one tire, with 200 HP Motor, speed reducer, manganese liners, ball charge all electrics, to be installed	39,000.00
Total		<u>\$401,025.00</u>

GLEN LAKE SILVER MINES LIMITED

NOV - 8 1968

Directors B. NIXON APPLE, Q.C., *Toronto, Ontario*
DR. H. ROE BARTLE, *Kansas City, Missouri*
FRANK CADESKY, *Toronto, Ontario*
FORREST MCCLUNEY, *Kansas City, Missouri*
RICHARD W. MILLER, *Kansas City, Missouri*

Officers FRANK CADESKY, *President*
B. NIXON APPLE, Q.C., *Vice-President and Secretary*
A. J. FORTENS, *Treasurer*

Head Office 365 Bay Street, *Toronto, Canada*

Mine Office *Cobalt, Ontario*

*Transfer Agent
and Registrar* GUARANTY TRUST COMPANY OF CANADA
Toronto, Canada

Auditors LAVENTHOL KREKSTEIN HORWATH & HORWATH,
Chartered Accountants,
Toronto, Canada

Solicitors SALTER, REILLY, JAMIESON & APPLE,
Toronto, Canada





Report of the Directors

To the shareholders:

It gives me great pleasure to present to you on behalf of the board of directors the sixth annual report of Glen Lake Silver Mines Limited and its wholly-owned subsidiary, Hiho Silver Mines Limited. Financial results of your company's operations for the fiscal year ending July 31, 1968, are contained in the audited statements which form an integral part of this report.

Earnings

The past twelve months have seen considerable fluctuations in the price of silver and higher prices paid by the smelter have contributed to the substantial increase in our net profit for the year. As world demand for the metal continues to rise ahead of new production, it is reasonable to expect that the price of silver will gradually climb higher. Operating profit for the past year was \$894,741 as compared to \$465,418 for the preceding year. Outside exploration was higher at \$191,590 as compared to \$125,190. Net profit amounted to \$623,917 as contrasted with \$97,016 for the prior year after making provision for depreciation and amortization write-

offs of \$163,047 as compared to \$250,964 for the year ending July 31st, 1967.

Mining Operations:

Silver production for the year ended July 31, 1968, was 1,154,850.36 ounces, an increase of 47,234.57 ounces above the quantity produced in 1967. Most of the production (959,098.46) came again from the Hiho, Cleopatra and Giroux Lake mines, whose total production to date of 3,664,409.26 ounces has now surpassed, by over half a million ounces, the total output of Glen Lake's Bailey mine. The Kerr Lake stockpile of broken ore also contributed substantially to your company's output of silver during the year, yielding 135,727.67 ounces of the metal. Rock from Kerr Lake is being treated in your company's LaRose mill, particularly suited to processing large quantities of low-grade ore economically. High-grade ore from the Hiho Mines, as well as ore from the Glen Lake mine, are custom-milled in the Bailey mill, now owned by Silver Town Mines Limited.

In your company's interim report, dated June 15, 1968, reference was made to a new exploration program, launched in the Giroux Lake area. Following indications of interesting silver values obtained by underground diamond drilling, your management decided to explore not only the immediate vicinity of the drill sites, but also an area located to the east of the Giroux Lake mine. Having recently acquired the Conisil property with its mine shaft located 2,330 feet to the east from the drill-indicated silver values, your company is currently driving a cross-cut from the shaft's 610-ft. level towards the target area. The drive has now advanced some 1,500 feet from the Conisil shaft.

Details of mining operations as well as exploration and development work on all your company's properties are contained in the report of Mr. M. C. Halstead, mine manager.

Proposed merger with Silver Town Mines Limited

As you were advised earlier, the directors of Glen Lake and Silver Town Mines reached agreement in

The aerial view of the Hiho Silver Mines property shows the Cleopatra shaft at left foreground; the University shaft is at left, on the shore of Giroux Lake. At right background is the Conisil shaft, from which the underground drive is now being completed to the Giroux Lake orebody near Dynamite Island (centre).

rental payments made up to the time of purchase. The newly leased United Cobalt properties also contain substantial tonnages of tailings which will be systematically sampled to assess their silver content.

Silver Town's northeastern part of the Peterson Lake property is largely unexplored. After de-watering the United Cobalt shaft which extends to a depth of some 1,000 feet, a cross-cut can be driven into that area for the purpose of underground exploration for silver ores. Such a project would be similar to that now being carried out by your company from the Conisil shaft.

Further details of the merger as well as appraisals of mining properties and plants involved, are contained in the joint Glen Lake-Silver Town Information Circular mailed to you with this report.

Advantages of the Merger

In the opinion of your directors, substantial benefits should accrue to the shareholders of both companies through the proposed merger.

Glen Lake Mines and its stockholders will gain from the increased overall silver output and from the proven profitability of treating Silver Town's tailings drawn from Peterson Lake. This, combined with substantial cost savings effected through the merging of technical operations and administrative functions, should improve the profitability and the cash flow position of your company.

There are large unexplored areas on the properties of Hiho Silver Mines and Silver Town Mines. Common exploration programs will spread the risk inherent in such operations over a wider shareholders' base; conversely, if new mines are discovered, stockholders of both companies will greatly benefit.

A further advantage to Glen Lake will be the availability of three mills — LaRose, Bailey and United Cobalt — lending a high degree of flexibility to your company's mining and milling operations.

From the point of view of Silver Town's shareholders, the advantages of a merger are also obvious.

Silver Town's operations have been hampered by lack of working capital. The merger will remedy this situation and allow for a vigorous development program on the company's properties. In addition, Silver Town shareholders will become participants in a company which has a proven production record, a demonstrated earnings capacity and which has been paying regular dividends.

As announced earlier, shares to be issued to Silver Town's stockholders will qualify for Glen Lake's 2½¢ quarterly dividend payable in December, 1968.

On a one for three share exchange basis, the proposed merger is at a ratio very close to recent and current market values placed on the shares of both companies.

Taxation

As reported previously, your company filed a claim under the Income Tax Act for a three-year tax free period covering the Hiho Cleopatra mine from August 1, 1964, to July 31, 1967 and the Giroux Lake mine from January 1, 1966 to December 31, 1968. The Department of National Revenue indicated that it was prepared to grant tax exemption only to July 31, 1965. A tax assessment has now been received by the company and appeal procedures have been initiated through your company's legal counsel.

Enclosed with the annual report is a notice of the forthcoming annual and special general meeting of stockholders. Should you be unable to attend the meeting, please complete, date, sign and return the instrument of proxy which accompanies the notice, to ensure your representation at the meeting.

Respectfully submitted
on behalf of the board,



FRANK CADESKY,
President.

principle on the merger of the two companies. Subject to approval by shareholders of both companies, Glen Lake Silver Mines will acquire the undertaking of Silver Town, in consideration of 1,489,168 Glen Lake shares. After completion of the merger Silver Town intends to surrender its Charter and distribute these shares among its stockholders who will receive one share of Glen Lake for every three shares of Silver Town held by them.

Silver Town Mines holds mining lands in the township of Coleman, Cobalt area, and is presently carrying out development and limited mining operations beneath Peterson Lake. Silver-bearing rock from two shafts is treated in the Bailey mill.

Peterson Lake also contains some 318,800 tons of tailings, estimated to contain 1,167,000 ounces of silver. This material is now processed in the United Cobalt mill nearby. The mill, together with adjoining mining claims and a mine shaft, was recently leased from United Cobalt Mines Limited. Silver Town has an option to acquire the mill for \$50,000, less any lease

Toronto, Ontario,
October 19, 1968.

General Manager's Report

The President and Directors
Glen Lake Silver Mines Limited
Suite 503 - 365 Bay Street
Toronto 1, Ontario

August 29, 1968

Gentlemen:

I am pleased to present the following report for the fiscal year August 1st, 1967 to July 31st, 1968 covering production and development work on your various properties in the Cobalt area of Ontario.

Production is shown for Glen Lake Bailey Mine; Hiho-Glen Lake subsidiary and Kerr Lake Mine.

Hiho - Kerr Lake

Tons Milled — 50,041

Aver. Mill Heads — 3.22 oz.Ag

Recovery — 84.25%

Production:

Aug. 1/67 - July 31/68

— 135,727.67 oz.Ag

Aug. 1/66 - July 31/68

— 166,126.87 oz.Ag

Production from the Three Properties:

Aug. 1/67 to July 31/68

— 1,154,850.36 oz.Ag

Aug. 1/62 to July 31/68

— 6,942,404.39 oz.Ag

The above production shows an increase of 47,234.57 oz.Ag over the previous year.

Glen Lake - Bailey Mine

Tons Milled — 8,797

Aver. Mill Heads — 7.25 oz. per ton

Recovery — 93.9%

Production:

Aug. 1/67 - July 31/68

— 60,024.23 oz.Ag

Aug. 1/62 - July 31/68

— 3,111,868.26 oz.Ag

Hiho - Glen Lake subsidiary

Tons Milled — 41,765

Aver. Mill Heads — 23.79 oz.Ag

Recovery — 96.49%

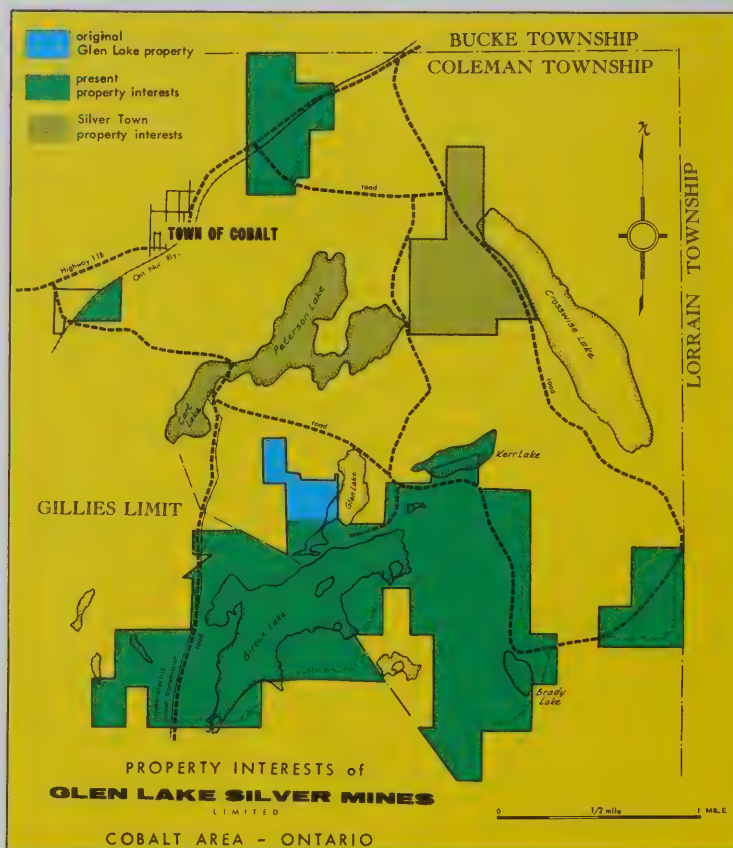
Production:

Aug. 1/67 - July 31/68

— 959,098.46 oz.Ag

Aug. 1/64 - July 31/68

— 3,664,409.26 oz.Ag



DEVELOPMENT AND MINING

Glen Lake-Bailey Mine

Mining has been limited to taking down pillars in old stopes, taking out floors and breaking new ore in 403 and 407 stopes. The ore is all low grade. 6,587 feet of diamond drilling was done during the year. This has indicated some possible new ore.

Hiho-Cleopatra Mine

Mining during the year was carried out in 22 different stopes. Some of these provide low grade ore and some high grade ore which is mixed. 10,460 feet of diamond drilling located most of the parallel and cross veins which provided a great deal of our ore during the year. The average grade of ore mined during the year was 23.79 oz.Ag per ton. Ore in sight and possible ore indicated at this time is 9,500 tons.

Hiho-Giroux Lake Mine

The veins in this mine have been the longest of any discovered to date. There are four stopes and the 41W and 41E which are on the same vein have a vein length of 732 feet. The bottom level is at 393 feet. The ore extends below this level as indicated by diamond drilling. Possible ore indicated at this time is 27,000 tons which showed average 24 oz.Ag per ton.

Hiho-Conisil Mine

The Conisil has a 600 foot shaft. We are driving a 2,500 foot cross cut from this shaft to an area five to six hundred feet south of the Hiho Giroux Lake Mine. In this area, diamond drilling cut both high grade and low grade silver ore. The cross cut should reach the new area sometime in November, 1968.

Kerr Lake Mine

The Kerr Lake Mine was dewatered. Underground diamond drilling and surface drilling is still in progress. Some calcite veins have been cut, but these carry very low silver values and no commercial ore has been located. Drilling is still in progress. There is an estimated two years ore remaining in the surface dumps to be milled.

It is of interest to note, as of the date of this report, we have passed our seven million mark in ounces of silver produced. The future still looks bright for a continuing operation.

Respectfully submitted,

M. C. Halstead, B.Sc., P.Eng.
General Manager

GLEN LAKE SILVER MINES LIMITED

(Incorporated under the laws of the Province of Ontario)

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED

CONSOLIDATED BALANCE SHEET — JULY 31, 1968

(With comparative figures — July 31, 1967)

ASSETS

Current assets:

Cash
Smelter settlements outstanding
Concentrates on hand and in transit, at estimated net realizable value
Receivable from affiliated companies
Other receivables

Investment:

Shares in Silver Leader Mines Limited, at cost (no quoted market value)

Fixed assets:

Buildings and equipment, at cost
Less accumulated depreciation (Note 3)

Mining leases (Note 1)
Mining claims (Note 2)
Mining claims held under option to purchase
Surface rights, at cost

Deferred expenditures and other assets:

Development and preproduction expenditures
Shaft sinking and related costs

Less accumulated amortization (Note 3)

Receivable from affiliated company
Mine supplies, at cost
Prepaid expenses
Income taxes refundable (Note 4)
Refundable deposits
Special refundable tax

LIABILITIES

Current liabilities:

Wages and payroll deductions payable
Royalties payable
Accounts payable
Estimated liability for Ontario mining taxes
Dividends payable
Payable to affiliated companies

Contingent liability (Note 4)

SHAREHOLDERS' EQUITY

Capital stock (Note 5):

Authorized:
5,000,000 shares, par value \$1 each
Issued and fully paid:
3,100,005 shares
Less discount thereon

Retained earnings

Approved on behalf of the Board of Directors:

FRANK CADESKY, Director.

F. F. McCLUNEY, Director.

1968	1967
\$ 29,402	\$ 50,394
704,502	299,012
84,252	76,982
6,564	34,717
17,126	4,652
<u>\$ 841,846</u>	<u>\$ 465,757</u>
\$ 41,250	\$ 7,500
\$ 653,925	\$ 641,501
451,319	473,866
\$ 202,606	\$ 167,635
35,005	35,005
212,000	130,001
—	30,000
2,550	—
<u>\$ 452,161</u>	<u>\$ 362,641</u>
\$ 427,344	\$ 427,344
293,666	293,666
\$ 721,010	\$ 721,010
650,395	579,780
\$ 70,615	\$ 141,230
—	51,936
47,920	50,614
23,716	18,511
7,775	—
14,817	13,860
9,550	24,471
<u>\$ 174,393</u>	<u>\$ 300,622</u>
<u>\$1,509,650</u>	<u>\$1,136,520</u>
\$ 43,480	\$ 31,623
5,681	8,069
125,448	92,040
38,201	16,482
77,250	—
2,263	7,994
<u>\$ 292,323</u>	<u>\$ 156,208</u>
\$3,100,005	\$3,100,005
2,330,000	2,330,000
\$ 770,005	\$ 770,005
447,322	210,307
<u>\$1,217,327</u>	<u>\$ 980,312</u>
<u>\$1,509,650</u>	<u>\$1,136,520</u>



AUDITORS' REPORT

To the Shareholders of
Glen Lake Silver Mines Limited

We have examined the consolidated balance sheet of Glen Lake Silver Mines Limited and its wholly-owned subsidiary, Hiho Silver Mines Limited, as at July 31, 1968 and the consolidated statements of operations, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the determination of the income tax status of the company's subsidiary to which reference is made in Note 4, these consolidated financial statements present fairly the financial position of the companies as at July 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL KREKSTEIN HORWATH & HORWATH

Chartered Accountants.

Toronto, Ontario,
October 4, 1968.

GLEN LAKE SILVER MINES LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended July 31, 1968

(With comparative figures for the year ended July 31, 1967)

	1968	1967
Revenue:		
Production of concentrates, flotations and metallics	\$2,717,611	\$1,715,500
Less: Smelter and other marketing costs	284,815	199,155
Royalties	12,478	39,137
	<u>\$ 297,293</u>	<u>\$ 238,292</u>
	\$2,420,318	\$1,477,208
Operating expenses:		
Mine development	\$ 366,568	\$ 345,388
Mining	449,749	238,908
Milling	447,483	189,812
General and office expenses at the property	59,338	64,249
General and administrative expenses	164,589	157,953
Estimated Ontario mining taxes	37,850	15,480
	<u>\$1,525,577</u>	<u>\$1,011,790</u>
Operating profit before depreciation and amortization	\$ 894,741	\$ 465,418
Deduct: Depreciation of buildings, machinery and equipment	\$ 92,432	\$ 109,734
Amortization of preproduction expenditures and shaft sinking costs	70,615	141,230
	<u>\$ 163,047</u>	<u>\$ 250,964</u>
Operating profit	\$ 731,694	\$ 214,454
Add: Profit on disposal of buildings, machinery and equipment	\$ 67,680	\$ —
Sundry revenue	16,133	7,752
	<u>\$ 83,813</u>	<u>\$ 7,752</u>
	<u>\$ 815,507</u>	<u>\$ 222,206</u>
Deduct outside exploration expenditures	191,590	125,190
Net profit for the year (Note 4)	\$ 623,917	\$ 97,016

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended July 31, 1968

(With comparative figures for the year ended July 31, 1967)

	1968	1967
Balance at beginning of year	\$ 210,307	\$ 400,936
Add net profit for the year	623,917	97,016
	<u>\$ 834,224</u>	<u>\$ 497,952</u>
Deduct: Dividends paid	\$ 386,251	\$ 231,750
Mining claims abandoned	1	5,895
Consideration for option to purchase mining claims, option lapsed	—	50,000
Adjustment of 1966 mining taxes	650	—
	<u>\$ 386,902</u>	<u>\$ 287,645</u>
Balance at end of year	\$ 447,322	\$ 210,307



CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended July 31, 1968

(With comparative figures for the year ended July 31, 1967)

	1968	1967
Source of funds:		
Operating profit before depreciation and amortization	\$ 894,741	\$ 465,418
Sundry revenue	16,133	7,752
Advances repaid by affiliated company	51,936	—
Decrease in special refundable tax	14,921	—
Miscellaneous	2,694	—
	<u>\$ 980,425</u>	<u>\$ 473,170</u>
Application of funds:		
Dividends paid	\$ 386,251	\$ 231,750
Outside exploration expenditures	191,590	125,190
Additions to buildings and equipment	59,722	45,247
Shaft sinking and related costs	—	66,811
Increase in non-current receivables from affiliated companies (net)	—	39,963
Purchase of mining claims, mining leases and working options	52,000	10,003
Investment in shares of Silver Leader Mines Limited	33,750	7,500
1966 income taxes	7,775	—
Special refundable tax	—	19,121
Miscellaneous	9,363	22,884
	<u>\$ 740,451</u>	<u>\$ 568,469</u>
Increase (decrease) in working capital	<u>\$ 239,974</u>	<u>(\$ 95,299)</u>

GLEN LAKE SILVER MINES LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARY, HIHO SILVER MINES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1968

Note 1 — Mining leases

The companies hold six mining leases covering certain parcels of land in the District of Temiskaming, Ontario. These leases provide for annual rentals totalling \$12,000 per year or royalties of 10% of the net smelter returns on ore shipped from the leased property whichever is the greater. One of the leases provides for a royalty of 25% of the net profits from mining operations after Hiho Silver has recovered all of the preproduction expenditures and capital outlays for buildings and equipment that it has expended on the property under the lease.

The company has the option to purchase the mining lands covered by one of the leases for \$75,000. All rents (and royalties) paid to the lessor during the leased period may be applied on account of the purchase price. The rentals paid to date on this lease amount to \$36,000.

Five of the leases are recorded at a nominal value of \$1.00 each as they did not require any purchase consideration. The other one lease is recorded at a cost of \$35,000.

Note 2 — Mining claims

The following is a summary of the mining claims held by the companies at July 31, 1968:

Certain contiguous parcels of land in the District of Temiskaming, Ontario, acquired for cash	\$ 130,000
Certain mining claims in the District of Temiskaming, Ontario, acquired for cash	82,000
	<hr/>
	<u>\$ 212,000</u>

Note 3 — Depreciation and amortization

Depreciation of buildings and equipment and amortization of preproduction expenses and shaft sinking costs are provided to write off these costs over the estimated life of the producing properties.

In accordance with Canadian accounting practice, no provision for depletion of the cost of the companies' producing properties is made.

Note 4 — Income taxes

Hiho Silver Mines Limited has made applications to the Department of National Revenue for three-year tax exemption periods for the Cleopatra and Giroux Lake properties commencing August 1, 1964 and January 1, 1966 respectively. The Department has indicated that it is not prepared to grant such exemptions as it deems the exemptions on the above properties to end on July 31, 1965, the date on which the exemption on Glen Lake's producing property ended. Accordingly, Hiho has been assessed \$7,700 for the 1966 taxation year.

In the opinion of counsel, Hiho should be entitled to the aforementioned three-year tax exemption respecting the Cleopatra property and accordingly the company has filed a Notice of Objection disputing the assessment received. Counsel is also of the opinion that should Hiho succeed with respect to its appeal on the Cleopatra property, income from the Giroux Lake property will be deemed to be income from the same mine and therefore tax-exempt to July 31, 1967. In such event, Hiho will still process its appeal respecting the Giroux Lake property extending the three-year tax exempt period for income earned therefrom to December 31, 1968.



Above: An aerial view of the La Rose mill and surface plant.

The payment of the disputed taxes has been charged to Income taxes refundable and no provision for 1967 has been recorded. If the company's Notice of Objection is sustained, preproduction expenses and capital cost allowances available are sufficient to offset the 1968 profit and therefore no provision for 1968 income taxes has been recorded.

Should the Department's assessment be upheld, income taxes for 1967 and 1968 could amount to \$230,000.

No provision for income taxes on Glen Lake's operations is required because development, preproduction and shaft sinking expenditures are available to offset profits.

Note 5 — Donated shares

10,000 shares of the company's capital stock are held in escrow by a trustee for the benefit of the company.

Note 6 — Directors' and officers' remuneration

Total remuneration paid during the year ended July 31, 1968 to directors and senior officers as defined by the Ontario Corporations Act amounted to \$85,958.

Note 7 — Transactions subsequent to balance sheet date

(a) Under an agreement with Silver Town Mines Limited dated October 19, 1968, the company agreed to purchase Silver Town's assets and assume its liabilities in exchange for 1,489,168 shares of the company's capital stock. This agreement is conditional upon the approval of the shareholders of both companies, the Canadian Stock Exchange and the Ontario and Quebec Securities Commissions.

(b) In August 1968, the company advanced \$100,000 to Silver Town Mines Limited.



1968 ANNUAL REPORT